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# **IS THE BUSINESS ENVIRONMENT A MATTER OF POLITICAL ECONOMY AND CONVERGENCE?**

*World Economics, Forthcoming.*

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## Key Points

- In this treatise, the central question addressed is: does the business environment entail a complex nexus of political economy and other factors (government, business, ideology, and leadership) that may or may not manifest convergence? Also, the role of metrics and data is appropriately discussed.
- Current theories fail to impart an understanding of what the nature of the business environment is, as well as the multifaceted nexus and convergence (or divergence) that it may entail.
- The strength of convergence involved is directly related to the integrity of the business environment and also reflects the overall dynamics in the country of focus. Each of the three country cases examined are fundamentally different, but offer important lessons. The overarching conclusion is that political economy and convergence often play a critical role in the business environment – though certainly not always, as in South Africa, where there is divergence, and in the case of metrics and data on the business environment, which do not, by design, focus on convergence.
- To achieve the desired outcomes, this article is organized as follows: first, we define the business environment; then we highlight the role of metrics and data. Following which, key theoretical perspectives are discussed. Finally, we examine three country cases (Canada, South Africa and India) before making concluding remarks.

**Key words:** political economy, business environment, convergence, government, business, leadership, ideology, metrics and data.

# INTRODUCTION

This treatise approaches the subject of the business environment with special reference to political economy and convergence; and, also from perspectives centering on the role of government, business, leadership, ideology, and metrics and data. We define political economy as a discipline that views economics and politics as fundamentally inseparable, mutually interdependent, and not dichotomous. Several scholars (Thomas Piketty, Francois Bourguignon, and others, including, Michael Munger and Mario Villarreal-Diaz) would likely concur with this definition<sup>1</sup>. Additionally, this does not preclude the fact that political economy can, and does, also draw from sociology, history and other social sciences.

Government is entrusted with the primary responsibility to shape the business environment, as it plays a critical role in numerous aspects of national development and in promoting the general good of all – citizens, institutions and businesses. From the perspectives of local and international business (IB), the business environment has a fundamental bearing on profitability, sustainability, growth prospects, and indeed the firm's competitive survival in the marketplace. The business sector often intervenes in key sectoral and policy areas to influence decision making by the government. From the perspective of a nation's leader, and through him or her, that of the government, reigning political party (or parties), and the major institutions of the nation, the business environment advances, first and foremost, political economy and ideology. Indeed, political economy is central to each of these perspectives.

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<sup>1</sup> Piketty (2014: 749) has posited that he views economics as political economy. Bourguignon (Snowdon, 2008: 154), in an extensive interview by Snowdon, has said that before he became Chief Economist of the World Bank, he thought that the solutions to development were economic. During his tenure, he discovered that politics and economics go hand-in-hand. Munger and Villarreal (2019: 337) have stated that the separation of economics and politics is unsustainable.

This article is organized as follows: first, we discuss what exactly is meant by the business environment; next, we highlight the role of metrics and data. Following which, selected theoretical perspectives, including implications for policy, are discussed; and lastly, three country cases (Canada, South Africa, and India) are critically analyzed. Concluding remarks round off our treatise.

## **MEANING OF THE BUSINESS ENVIRONMENT**

The business environment, often referred to as the business climate, has been variously defined. It is the environment for business that is shaped by government, political economy and leading actors (political, economic, institutional, business, cultural) and institutions in any given nation. Most academics, however, use a relatively narrow definition. For example, Steiner and Steiner (1985) have stated that ‘the business environment determines the life, death, or state of health of individual companies and business as an institution’. In comparison, scholars such as Moore and Schmitz (2008) have offered an even narrower definition focusing on cost-reduction and profitability. A narrow perspective supports the viewpoint that in IB, multinational enterprises (MNEs) are efficiency-seeking and aim to reduce their costs by accessing cheaper factors of production. This argument also explains the waves of foreign investment since the 1970s. The first wave of ‘offshoring’ in the 1970s, 1980s, and 1990s, saw a shift of U.S. and European manufacturing of products such as shoes, electronics, textiles, and toys to cheaper labour and investment friendly countries, mostly emerging market economies. This phenomenon was a consequence of the globalization of supply chains.

Additional purely economic definitions of the business environment include the viewpoint that developing countries need investors and entrepreneurs, and a good business climate will obviously encourage the creation of new businesses. 'It is a puzzle why it took the development community so long to realize the importance of these issues' (Bourguignon, in an interview conducted for World Economics journal by Snowden, 2008: 130). Tokuoka's (2012) assertion that the main function of the business environment is to revive and facilitate corporate investment emanates from a similar definitional viewpoint.

On the whole, however, these definitions have a fundamental flaw as they ignore the larger and overarching function of the business environment, which extends beyond various matters of cost and investment. To be sure, these narrow viewpoints do hold some merit. But, ultimately, they are premised on specious reasoning.

Granted, for certain MNEs, strategic asset seeking with a focus on securing raw materials, commodities, technology, labour, and a strategic market foothold, is an integral part of the firm's mission, and the business environment is therefore an important consideration in decision-making. Recent Chinese and Indian investments in Africa fall securely in this category (though China has found ways to get around poor business environments through the use of armed Chinese guards, building of the required infrastructure, and by cultivating special relationships with local businesses and political elites). Similarly, Brazilian MNEs are also increasingly investing in Africa by making the best of relatively poor business conditions, by securing long-term contracts for the supply of technical and managerial expertise, by improving infrastructure (e.g. railways and ports), and by further penetrating existing markets

and/or entering new ones. Nonetheless, the purpose and scope of the business environment is of course much broader.

As David Conklin (2011), posits in his book *The Global Environment of Business*, the business environment entails a wide perspective: ‘Forces outside the firm’s traditional boundaries are increasingly important ... these forces in “the environment of business” differ among nations and over time’. We believe that a wide perspective also includes, inter alia, ‘national interest’, which is often perceived by national leaders (by a strong President, Prime Minister, or Chairman, in some cases) and is articulated by technocrats and/or bureaucrats as part of the nation’s ideology. In this way, as illustrated in the country cases presented below, nations uphold, alter or sway policies, strategies and decisions, and thus influence the rules of the game.

As the role of political economy and internationalization are key considerations, it should be noted that country risk can be systematic or unsystematic as firms internationalize. The former affects all industries or all firms in a country and as such it does not discriminate or favour some companies over others – a civil war being an example. Unsystematic country risk can be more insidious and it only affects certain firms that have been targeted by country governments, such as when the Russian government besieged only Yukos with politically motivated harassment a few years ago. A current example is political economy’s hand in the targeting of Huawei, China’s largest technology company, by the U.S. under Donald Trump’s leadership. The U.S. alleges that Huawei, acting at the behest of the Chinese government, is engaged in commercial and technological espionage, fraud, destroying evidence, and circumventing sanctions against Iran. America’s national security, economic and commercial interests, and global hegemony are at stake. Even Canadian institutions, especially the justice

department, have been swayed to act on the behalf of American interests as expressed by the U.S. government. These aspects of the business environment fall under the long arm of political economy and ideology, as perceived by the American and Canadian leaders.

At this juncture, the use of selected nomenclature in this treatise should be introduced and defined. Comprehensive convergence entails convergence of political economy, government, business, and two ancillary areas, that is, ideology and leadership; intermediate convergence involves four of these areas in all; and absence of convergence – also referred to as divergence – is inherently problematic and manifests as a major weakness in the business environment that results in a dichotomy, opposing views, and conflict. Divergence necessitates the identification of possible solutions.

What then, is a simple yet robust definition of the business environment? It is a composite of all factors in the business environment including political economy, governmental processes and policy making, business sector interventions, ideology and leadership. A complex nexus between these factors, however, does not necessarily lead to convergence as country dynamics cannot be ignored and the integrity of the linkages is of critical importance as well.

## **METRICS AND DATA**

In addition to viewing the business environment in terms of political economy and various aspects of convergence, metrics and data are complementary considerations. There are numerous indicators of the business environment focusing on microeconomic, macroeconomic, business, and governance issues. Despite the fact that data on the business environment is costly to obtain, hard to defend, and typically limited in scope, content and



utility, there is no denying that such data can be an indispensable tool in regulatory reform, planning, governance and marketing. While cutting across virtually all aspects of the business environment are metrics and data, the state of the science is riddled with controversy. There are no universally accepted and comprehensive measures. Notwithstanding, the Doing Business indicators (DBIs) have a preeminent place in discussions of the business environment.

The World Bank is the leader in developing, publishing, and annually updating and disseminating data on DBIs. The indicators depict how regulations impact on doing business in 190 countries in the world. The indicators encompass a wide scope depicting the ease of doing business in each country. The ten specific parameters involved are: starting a business, dealing with construction permits, getting electricity, registering property, enforcing contracts, getting credit, protecting minority investors, paying taxes, trading across borders, and resolving insolvency. DBIs are the most widely used indicators in assessing the business environment. DBIs are employed to explain, among other things, how needed reform of regulations can ameliorate the business environment.

Although these indicators are arguably useful, a limited picture of the scope and depth of the business environment is garnered by them. Yet they are a valuable marketing tool for the World Bank. However, DBIs have been the subject of extensive criticism (Center for Global Development, 2018; and RT, 2013). Perhaps the harshest criticism came from the World Bank's own (former) Chief Economist, Paul Romer, who resigned from his post saying that the Bank made methodological changes, after the fact, that impacted the rankings as earlier data was altered. A combination of politics, metrics and data discoloured the business environment rankings. Nonetheless, DBIs are a powerful example of the pivotal role of

political economy in the business environment, though convergence has no role to play in discussions of its metrics and data.

## **KEY THEORETICAL ISSUES**

The main theoretical issues we shall now address are: Which theories include the business environment to be of fundamental importance? What is the political economy underpinning of the DBIs? And what sort of dimensions of the business environment are not included in the DBIs? How relevant are theories of governance to the business environment? What is the relevance of theory to daily affairs of the average citizen? Are ideological theories useful in understanding business environmental affairs?

If the business environment is of much importance in matters of political economy, international business, and national development, then one would expect relevant theories to incorporate such a perspective. Yet, there are few theories that do so. One notable exception is the Six Cornerstones theory, in which the six cornerstones of IB and transnational management are articulated as: the union of mission, policy, and strategy; attention to culture; a combination of technology, innovation and creativity; the development of human capital; motivational leadership; and consideration of the overarching business environment – for details, see Chibba, 2012, 2013, 2015.

The rationale behind the DBIs is generally supported by the ‘successful society’ theory, which is outlined below. However, one should not overlook the political economy underpinning of DBIs – that is, tampering with methodology and results by the World Bank with respect to DBI country rankings, as alleged by Paul Romer, as explained above.

The hand of political economy is evident at the country level as well (and beyond theoretical arguments). Put differently, it is *also* a question of non-level playing fields, vested interests, and corruption – all of which are non-market factors. As aptly noted by Kaufmann (2004) of the World Bank, “powerful vested interests conspire against the concrete sustained progress essential for development”. In Botswana, for instance, according to field research by Chibba, certain foreign-owned businesses, and small and medium enterprises owned by ‘non-Motswana’ (i.e. foreigners), even in cases where the owners reside in Botswana, are blocked from expanding into other areas of the country through regulations and related red tape to protect the interests of local businessmen and the political elite. This dimension of the business environment is not included in the DBIs.

What is the relevance of theory to daily affairs of the average citizen? In day-to-day affairs, the role of theory is essentially non-existent. Moreover, there are few widely accepted theoretical treatises on the business environment, even if viewed within a very broad context. Yet, political economy, political systems, business group lobbying, as well as ideology, are variously perceived within academia to play a key role – for examples, see Hoekman and Kostecki, 2001; Todaro, 1985; Steiner and Steiner, 1985. Nonetheless, in the absence of any received wisdom on the overall subject, one can nevertheless highlight pertinent observations and draw hypotheses.

The government in power in any given nation has a direct influence on the business environment based on factors such as the type of government (for instance, whether it has an outright majority in a parliamentary democracy or is it a coalition of two or more competing political parties), the ideology of the ruling party or parties (neoliberal, socialist, autocratic,

theocratic, or economic nationalist), the overall development strategy being pursued, and the rules of the game. Rents are also an area of concern. Rents take many forms, including transfers and subsidies from the government, laws that make the marketplace less competitive, poor enforcement of existing competition laws, as well as a business environment where corporations take advantage of others or pass costs on to society. As Coyne and Hall (2019: 403-404) have noted, rent-seeking and rent-extraction have a bearing on the actions of politicians and businesses:

‘In order to influence political actors, private firms engage in rent seeking ...(and) political actors engage in rent extraction. The underlying idea behind rent extraction is that discretionary control over rule enforcement and resource allocation creates a property right. Politicians who possess this property right can extract payments from those subject to their control’.

Other than government, IBs and the local business elite can and do influence the business environment through lobbying and other non-market interventions, often a common interest shared with the government in power, and by influencing and changing the institutions that are central to national development. As alluded to above, non-market factors involve a wide array of forces – including social, political, legal, regulatory, legislative and corporate – that deliberately seek to influence the institutions of the market system.

Consider governance matters collectively as a case in point. At a broad level, three dominant theories are relevant to our overall theme. The first theory relies on the ‘successful society’ as the model to strive for in all matters of governance. The World Bank’s DBIs fall within this school of thought, as the basic tenets of an advanced country’s business regulations and related rules and procedures for a good business environment are upheld as the gold standard, albeit with a narrow perspective. However, there is an underlying assumption that developing countries should (and want to) emulate or strive to achieve the type of business environment

found in a developed country. Such an assumption is arguably ethnocentric and even unrealistic in some cases. China, for instance, has resisted any calls to emulate Western systems and related configurations for decades, despite persistent pressure from the U.S. and its allies, and the Chinese nation has instead forged and upheld its own governance style and system, which has served it well in shaping its business environment (much to the chagrin of many observers).

The second theory focuses on good governance – non-market forces being an integral part of a good business environment – and it is viewed as pivotal to the growth of the economy and is referred to as the ‘cautionary school of governance for growth’. However, this theory has numerous pitfalls, limitations, and exceptions. Hence, its utility is questionable. Acemoglu (2008), for instance, argues that the link between enhanced governance and governance for growth, is not clear at all and it cannot be confidently pursued as a policy. Rodrik (2008) believes that the problem is that economists have little to say about ‘good governance’ but much to contribute to the governance for growth agenda. If one of the key goals of ameliorating the business environment is to contribute to economic growth, then this theory is of some interest generally, but lacks tangible solutions to shape dimensions of the business environment.

The third theory, expounded by North, Wallis & Weingast (2008), is known as the ‘social order’ theory. In essence, it offers a two-part typology: about 165 countries in the world with roughly 85 per cent of the global population have a social order that first appeared about ten millennia ago, and which exists to this day in various forms that are part of the ‘natural state’ (which replaced the primitive or first social order). The remaining 25 countries, representing about 15 per cent of the world’s population, are characterized by ‘open access’, which first

appeared in a few societies at the end of the eighteenth and beginning of the nineteenth centuries. Here, the two key points to bear in mind are: social order is maintained through the interplay between competition, institutions and beliefs; and transition of countries to the ‘open access’ order is facilitated by the institutional and historical context. But the specific institutions that are the agents of change differ across societies. Therefore, the interventions and proposed reforms supported by international organizations must conform to existing beliefs about political economy and social, institutional and cultural systems in the natural state (namely, the so-called ‘developing countries’) to be appropriate and successful. Failure to recognize the gravity of this assertion, argue North et al, produces new institutional forms that are less effective than the ones they replace, and specifically because the broad prescriptions that mimic the open access order (as with the successful society theory) are prescribed, including less regulatory control, the absence of monopolies, more secure property rights, improved provision of public goods, and more complete markets. Despite its robustness however, this theory also has only general relevance to the business environment.

Indeed, these three theories fail to explain the powerful role of the business environment. And have little practical relevance, whether at the country, firm or governmental level. In this regard, the most relevant and robust theory is the Six Cornerstones theory, for the following reasons: (i) appeal to comprehensiveness; (ii) elaboration of dimensions not fully nor clearly identified by scholars; (iii) explanatory power; and (iv) the business environment is a cornerstone. The explanatory power of this theory is well articulated in several publications (see Chibba, 2012, 2013).

Are ideological theories useful for understanding matters of the business environment? Ideology, which is closely related to ethos and theory, in the sense that it is built on theoretical,

philosophical, and related assumptions, also plays a critical role. Neoliberalism, for instance, provides a useful narrative. It is an ideology that has existed for a very long period and it has been a powerful force in political economy, business and government. Neoliberalism was a dominant ideology in the nineteenth century, when several European countries espoused the laissez faire doctrine, but it unravelled during the great depression, and it re-emerged in the late 1980s as a guiding force, especially in North America and Europe. Is it still alive as an ideology today? This is a contentious proposition. There are many scholars (for instance: Gray, 2008; Carmichael, 2008), espousing the political economy perspective, who fervently argue that neoliberalism's likely demise was signalled by the dual financial and economic crisis of 2008. Others, especially scholars of modern politics and sociology, argue that it still flourishes (Roehner, 2009; Hickel, 2012; Wacquant, 2012). Joseph Stiglitz, an economist, summed-up his viewpoint on neoliberalism as follows:

‘The world has not been kind to neoliberalism, that grab-bag of ideas based on the fundamentalist notion that markets are self-correcting, allocate resources efficiently, and serve the public interest well. It was this market fundamentalism that underlay Thatcherism, Reaganomics, and the so-called Washington Consensus in favour of privatization, liberalization, and independent central banks focusing single-mindedly on inflation.’ (Stiglitz, 2008: 1)

In addition, Stiglitz argues that the neoliberal ideology is a political doctrine serving certain interests, and it was never supported by economic theory. Nonetheless, neoliberalism has been a driving force behind governmental policy-making (and decision-making by businesses and public leaders) for many years. During the Reagan and Thatcher years the prominent belief was that free markets were the best way to resolve economic problems. But neoliberalism neglects the fact that markets work poorly when institutions are weak and required information is not widely available. In fact, this is often the case in emerging market economies and in the developing world. And viewed from an ethics perspective, it poses a dilemma at best, and

ignores ethical issues and non-market forces as peripheral to business. Neoliberalism, as a guiding ideology for the business environment, is increasingly obsolete. We now turn to country cases to shed further light on our theme.

## **COUNTRY CASES: Canada, South Africa and India**

### **Comprehensive convergence in Canada?**

Comprehensive convergence is a key implicit objective in the business environment. The Canadian case offers special insights in this regard for two reasons. First, Canada is the only developed country of the three cases to be discussed here. Second, the Canadian economy is closely tied to that of its large southern neighbour, the United States (U.S.). The business environment in Canada was always robust and comprehensive in scope, investor-friendly, and attractive to both local business and IB. With abundant natural resources, and a stellar business environment with respect to governance, labour climate, infrastructure, and political economy, Canada was and continues to be a magnet for American investment (though Donald Trump has diminished this long-standing trend somewhat). There is also one additional difference currently. The recent rise of emerging market economies, such as China and India, is introducing a new class of foreign investors in Canada that is raising fundamental challenges on various fronts, especially in areas of policy, strategy, and ideology.

Unlike the situation in some emerging market economies, Canada's business environment is advanced and stable yet flexible. Its high level of integration with the U.S. economy has meant that by far the vast majority of large Canadian businesses are American-owned. As a result,



American businesses are treated favourably in virtually all areas of investment – barring sectors such as communications and publishing for ideological, institutional and cultural reasons (i.e. these sectors are ‘sacred’, in the sense that they must be protected in the national interest).

With the sole exception of the attempted buyout of the Canadian-owned MacDonald, Dettwiler and Associates’s (MDA’s) information and geospatial services in 2008 for \$1.325 billion (U.S.) by Alliant Techsystems, Inc. (ATK), one of the largest aerospace and defence firms in the U.S. (which ceased operating in 2015, when it merged its aerospace and defense units with Orbital Sciences Corporation, accompanied by a spin-off of its sporting goods unit), every American MNE’s attempt to buy a Canadian firm over the past three decades was approved. And reciprocity has been an underlying requirement of all acquisitions of American firms by Canadian firms (again, this is changing under Trump). As a clear sign of the business-friendly environment that Canada boasts, only one application by a private sector firm (ATK’s) has been formally rejected to date – excluding the attempt in late 2010 by Australia’s BHP Billiton to purchase the Potash Corporation of Saskatchewan, as the bid was subsequently withdrawn due to initial opposition by Canada’s minority Conservative government at the time (because the Liberals and New Democrats would not have approved the sale due to politico-economics). Saskatchewan’s government and its Premier were also against it as they wanted the Potash Corporation to be kept in local hands for reasons including politico-economics (e.g. regional politics; employment) and ethos. In approving or rejecting foreign investment bids, the comprehensive nexus encompassing political economy, leadership, government, business, and ideology, is the driving force behind all decisions and policy-making.

In recent years, the rapid rise of IBs from emerging markets (that is, emerging market multinational enterprises, EMNEs), is giving rise to the new phenomenon of powerful state-owned enterprises (SOEs), and this is posing fundamental challenges to Canada's policy environment. After all, SOEs are a special form of multinational enterprise (MNE), based on state capitalism or, in some cases, other forms of capitalism. In Canada, there are two recent examples that are noteworthy in this regard. Petronas, a Malaysian government-owned firm, recently purchased Progress Energy Resources Corporation, a Canadian company in the huge shale gas fields sector. The second case involved state-owned China National Offshore Oil Corporation (CNOOC), which purchased Nexen Inc. for \$15.1 billion, another Canadian firm in the oil (i.e. oil sands) and gas sector.

The business environment for foreign investment in Canada includes a policy framework articulated by the federal government several decades ago. It calls for the foreign investor to satisfy three key criteria: transparency (at least in the firm's affairs in Canada); the appointment of independent Canadian directors on its Board of Directors in Canada; and a Canadian stock exchange listing for the firm or acquired entity. In addition, there must be a 'net benefit' – a deliberately vague concept to allow room for political economy and ideological interpretation by the Prime Minister, his Cabinet and the government at large. Put differently, it is a matter of policy making on the business environment. Finally, another important consideration is that there should be reciprocity. Canadian investors engaged in overseas investments must, in principle at least, be accorded the same rights and privileges as those extended to the foreign investor in Canada. Such policy guidelines, on the whole, are 'impossible' for China to fully satisfy as it is not a capitalist nation and it forbids, for instance, the acquisition by foreigners of Chinese firms in strategic sectors such as telecommunications,

energy, aviation, and metals. Should Canada adjust its investment policies to uphold its strategic interests (for access to investment funds, in support of employment generation, and in the pursuit of economic growth, for instance) and forego national interest concerns? The argument in support of this is that for several years Canada has been touting that it is ‘Open for Business’ and politicians have been wooing Asian businessmen and governments to do more business with Canada.

Mr. Stephen Harper, the former Prime Minister of Canada, announced in late 2012 that the two SOE bids had been approved by his government. He added a cautionary note: ‘When we say that Canada is “Open for Business”, we do not mean that Canada is for sale to foreign governments’ (McCarthy and Chase, 2012). Thus, he had ‘drawn a line’ in the oil sands. The rules of the game were accordingly adjusted. New, more stringent rules were set by the government, and future bids by SOEs will have a much higher bar to cross. Mr. Harper explained his rationale behind this move as follows: ‘To be blunt, Canadians have not spent years reducing ownership of sectors of the economy by their own government only to see them bought and controlled by foreign governments instead’ (McCarthy and Chase, 2012). In other words, joint ventures and minority ownership are welcome, but outright acquisitions of Canadian firms by foreign SOEs are not. Future bids from SOEs will not be allowed except under exceptional circumstances, though such circumstances remain undefined and leave politico-economic room for manoeuvre, as with the net benefit criterion under which the two SOE bids were approved. The Conservatives had an outright majority in Parliament at that time and firmly held the belief in the positive role of market forces, tempered by limited interference by the state in business matters (i.e. reflecting the dying legacy of the neoliberal ideology), along with a fundamental desire to bring economic benefits to the Canadian

economy at a time when economic growth was slowing down and future prospects were not bright. This was the political economy context for the approval of the two bids. In addition, leadership, national and regional politics, the ideology of the Conservative party, and local and national business interests, were the main factors in the business environment behind the two positive decisions by the government.

There are at least three lessons that can be drawn from these two SOE examples. First, policies can be adjusted to support strategies and the government leadership's ideology. Second, politico-economic considerations are of paramount importance in investment policy-making. Third, as a leader, Mr. Harper had wooed Asian business and he has been an ambassador and salesman as well by emphasizing that Canada is 'Open for Business'. Indeed, the key role of leadership cannot be overlooked. Fourth, the business sector's support of the two sales, and the need to revise related policies was no small matter. Both CNOOC and Petronas had willing IB partners in Canada who welcomed the sale of their assets (and at a higher bid price than the listed share price or estimated value of each of the firms). In addition, the Canadian partners had declared that they were in need of and would welcome the injection of foreign capital. These Canadian cases epitomize comprehensive convergence. Note, however, that there was no tangible role for theory per se, except for the Six Cornerstones theory, which has explanatory and analytic power.

Currently, under the leadership of Mr. Justin Trudeau, a Liberal, who became Canada's Prime Minister in November 2015 (which may or may not change in the upcoming October 2019 federal election), is there a departure from the status quo? Mr. Trudeau's ideology, values, and views are more social policy oriented, thus his support for business is tempered to socio-economic issues, especially employment, and potential and real economic and business

benefits to Canada. His strong embrace of politico-economic considerations is a defining aspect of his leadership as well. Presently he is embroiled in the case of SNC Lavalin, which is a large MNE headquartered in the province of Quebec. The case in question involves alleged meddling by his government in pressing for benign legal action in Canada's justice system against SNC Lavalin's alleged 'corrupt' actions (a criminal matter). The government is calling for imposition of fines only, rather than harsh action, in the interests of saving thousands of jobs and protecting Canadian business interests. Other than political economy, this case also illustrates the ethics dimension as de facto peripheral to such strategic action. One of Trudeau's cabinet members (a former Attorney General and Minister of Justice) resigned from her dual positions over disagreement with him on the severity of the sentence (or lack of it) and political fallout has ensued. At this writing, the saga continues in and outside the Canadian parliament, though the role of political economy, leadership, governmental policy-making, ideology, and opposition politics are at the heart of this case – not rents per se, whether rent-seeking or rent extraction. If one overlooks the political shenanigans of the opposition parties, the attempt to shape Canada's business environment further to reflect Trudeau's leadership style, Canadian values, and political economy considerations, we have a case that is exemplary of comprehensive convergence at play.

### **South Africa: a divided country with a poor business environment**

The business sector of South Africa, which of course includes both local and IB, has always been maneuvering its position to protect its interests. It lobbied during the constitutional

negotiations to ensure that its property rights would be entrenched and that a future government's ability to undertake wholesale redistribution of assets would be limited. In return, it supported the expansion of the capitalist class to include a new group of black industrialists, by co-opting them through large black economic empowerment deals. The drawback in this approach was that, in reality, only political power rested with the African National Congress (ANC) and the new black elite. Meanwhile, the business sector successfully pressured the new government to adopt stringent macroeconomic policy and reduce debt levels. Thus, an ironic situation arose with a new left-wing government (headed by Nelson Mandela, an ANC member) adopting the business sector's conservative economic policy.

The business sector was also involved in transforming the very institutions that play a key role in the nation. MNEs that operate in such a milieu often have turnovers significantly larger than the GDP of host countries. They are therefore not merely takers of the rules of the game but are actively involved in making and influencing the rules themselves. As Abdi and Aulakh (2012: 479-81) have argued:

‘MNEs and local institutions interact in a co-evolutionary process ... in which MNEs adjust their strategies into host institutional frameworks, and concurrently act as providers of key institutions by putting the host environment in contact with MNEs’ practices that are based on different values, norms, and legal frameworks’.

As part of their transnational management strategy, MNEs can therefore shape the institutional environment and hence the governance structure in host nations. In South Africa, global capital has played a significant role in ensuring that the first post-apartheid government adopted business-friendly economic and institutional policies. When Nelson Mandela was released from jail, he reiterated that nationalization of industries was to be the ANC's policy. Yet two years into his first term as President, and with pressure from the business sector, his

administration adopted a neoliberal economic policy called GEAR which had strong elements of Thatcherism. GEAR was based on the assumption that liberalization would attract foreign direct investment, trusting that the investor-friendly climate would send the right signals to the market, and thereby boost investor confidence. This position was actually heavily influenced by IB, and the role of Goldman Sachs in reversing ANC's policy course is well documented. There is no denying that IB and transnational management strategies are influenced by the institutional environment in host countries, hence IBs often intervene to serve their own needs.

In the early post-apartheid years, when the broad parameters of South Africa's future economic and business environment were being developed, IB played a very deterministic role in ensuring that South African policy-makers were kept in check. The shift from the 1994 policy of the Reconstruction and Development Programme – which was focused on a basic needs approach to development on the one hand, and undoing the legacy of the past on the other – to GEAR, with its focus on debt ceilings and macroeconomic stabilization, represented an extraordinary paradigm shift for a ruling leftist party and underscored the impact of IB on the fledgling government. This shift was facilitated by co-opting black capital into this alliance through the Black Economic Empowerment policies which created synergies between global capital and indigenous capital.

In more recent years, South Africa has witnessed growing unrest as the majority of the population remains socio-economically hamstrung as a result of these policies. Growing inequality has manifested itself not only in the inter-race dimensions of the population, which has historical roots, but also increasingly at the intra-race level, especially within the black population as a result of the co-opting of a small group of capitalists. This has led to a backlash

and growing populist calls for new social and economic alternatives to be pursued, and the reintroduction of calls for nationalization. Once again, IB played a pivotal role in the business environment and pointedly warned of the consequences to capital flows should South Africa embark on this course of action.

At the ruling ANC policy conference in mid-2012, nationalization and other populist options were carefully repackaged so as not to offend the elite, promote an investor-friendly climate, and maintain the status quo. This was subsequently confirmed at the 53rd ANC elective conference at Mangaung in December 2012 where the ‘party finally vetoed the idea of nationalization’ which was interpreted as ‘part of a broad defeat for the left-wing factions’ as the party sought to reassure investors and ‘allow more influence for pro-business leaders in the party’ (York, 2012). In fact, it went a step further and ensured the appointment of one of South Africa’s wealthiest black capitalists, Cyril Ramaphosa, to the position of Deputy President of the ANC. And later, in February 2018, he rose to be President of South Africa. Some of the major business groupings are now headed by black capitalists, and this has made their voice more effective in the battle of ideology. We are not arguing for or against the policy options being presented but rather reflecting on the relative positions of power that global capital is able to exercise over institutions and policy outcomes in developing and developed countries. Another dimension in the wider business environment is reflected by South African companies themselves internationalizing into other emerging markets, where institutional voids are present. In 2011, South Africa became a formal partner of the so-called BRIC (now BRICS) group of countries and, although it was over-shadowed by the other countries in terms of GDP and population size, it has produced more of the larger EMNEs than India and Brazil, and an equivalent number when compared to Russia. Only China has produced more. South



African MNEs dominate in Africa and have carved out a niche as they have shown themselves to be particularly adept at doing business in volatile political, economic and institutional environments, precisely because of their experience within their home base and because they are more acquainted with the business environments in African countries. They have thus developed advantages over MNEs from industrialized countries in doing business in these new frontiers. Their home base weakness has been turned into a strength when they venture into new and riskier markets. They have shown themselves not only to be effective at adapting to business environments with high risks and institutional weaknesses, but also to have the ability to affect institutional and organizational development within the countries that they invest in.

Of course, the role of leaders (as in Canada's case discussed above and India's case discussed below) is pivotal in shaping the business environment. And modern politics and leadership play an important role. In South Africa, under Mr. Jacob Zuma, the previous President, such was the case in 2017 with Mr. Gordhan (the Finance Minister at the time) and his Deputy, when they were in London, England, to reassure foreign investors of the stable country environment and improving economy in South Africa. At that time, Mr. Zuma ordered these ministers to return home immediately. 'This action has pulled the rug from under our feet', said a statement by a group representing the country's biggest corporations, all of them global businesses as well (York, 2017). Shortly after Mr. Gordhan's return from London, he was fired from his post. In this episode, leadership and political dynamics trumped economics.

Several key points about the nature of South Africa's business environment have thus emerged. First, IB can not only be affected by the country's leadership and institutional environment, but may also play a role in its very determination, and indeed the locus of power can and does alternate depending on local circumstances. Second, the role of political

economy is peripheral to the business environment, especially because the black elite holds largely political power, while economic power rests with the business sector. In essence then, there is a dichotomy since there is little or no convergence of politics and economics. Moreover, insofar as a country can determine its business environment, there also exist broader implications for the socio-economic, policy and institutional environments, and this has a direct bearing on people's lives. Choosing a conservative or neoliberal policy framework may result in unfavourable labour market conditions, social program cutbacks and rising inequality, which in turn may lead to a populist backlash and forced changes to the business environment. Third, the business sector in developing countries can learn from poor business environments and capitalize on this, in terms of a competitive edge, as South Africa has in internationalizing into new global frontier markets, which exhibit similar institutional weaknesses.

On the whole, South Africa exhibits little or no convergence, let alone comprehensive convergence. This is a major inherent weakness in its business environment. Furthermore, as politics and economics are dichotomous, there is no role for political economy per se. South African politics are dominated by the ANC and the black elite, while the business sector (including foreign IBs) dominates the economic agenda. This dichotomy often yields competing roles in politics and economics in the nation's business environment and creates disruption, lack of coordination, and conflict in policy-making and action.

The practical implications of this failure are profound as the integrity of the business environment is at stake. What are some of the possible solutions emanating from consideration of this case of divergence? We have three recommendations to offer.

- (1) Information on the very nature of the business environment is not available to all (both within and outside key global, regional and national development agencies). This gap should be addressed and corrected at the country, regional and multilateral and bilateral institution levels through training, information disclosure, and advocacy.
- (2) Leadership development is also a major constraint. Advisory services and training of key policy-making staff at national institutions (private and public) would go a long way in correcting for this.
- (3) Furthermore, sensitizing policy-makers and decision-makers (in government and the business sector) to the ethical dimensions of courses of action, would ensure that ethics is not a nebulous concept but one that has real world implications.

## **India: strong leadership and a robust political economy**

To appreciate the nature and role of the business environment in India, understanding of its history since independence is of crucial importance. After a long period of colonial rule by Britain spanning over two centuries (with direct rule by the Crown for nearly a century), India became an independent nation in 1947. Not only was its birth difficult in terms of social, economic, political and cultural upheaval, but it led to a prolonged period of economic stagnation. The overarching problem was that neither India's development paradigm, nor its business environment, was conducive to spurring a robust level of economic growth and social development. The gurus of economics at that time (such as W. W. Rostow) and the political and institutional scarring from colonial rule, and its legacy, also did not help in the adoption of an appropriate development paradigm. Feeling alienated and distrustful of Western

approaches and ideologies, India turned to both self-reliance and a planned economy – not to the economic models espoused and advocated by the United States and Britain during those days – to pursue national development. Reform meant planned industrialization, protectionism, state ownership, and public provision of selected basic services. Charismatic political leaders such as Nehru embraced this ‘socialist’ model and ensured that this ideology (economic, political, social and philosophical) was paramount. Political economy was thus at the core of all development initiatives.

Ultimately, in the late 1980s and early 1990s, under new national leadership, the failures of this paradigm ushered in a period of reforms with focus on deregulation and economic liberalization. The limited reforms that were introduced facilitated a business-friendly environment; and the timing could not have been better. The collapse of communism in 1991 brought forth new economic and business opportunities that presented themselves along with the rise of globalization and the West’s neoliberal ideology (until the dual economic-financial crisis of 2008 turned it on its head), and paved the way for a long period of economic expansion in India. The annual economic growth rate soared to anywhere between 6 per cent to nearly 10 per cent of GDP between the years 1988 to 2008; and from 2016 to 2018, India had one of the highest growth rates in the world (IMF, 2017; World Bank, 2018).

How is IB adapting to India’s new business environment and related economic, institutional and infrastructure constraints? Take for example the case of German firms in the industrial hub of Pune, West India, which illustrates some of the positive business environmental aspects with respect to manufacturing at the local level (The Economist: 2012a: 55):

‘...German firms were attracted by (fairly) reliable power and access to land but also Pune’s engineering colleges and tradition of manufacturing ... Pune hosts 262 German companies, up from 130-odd in 2008 ... (also) the foreign influx is not limited to

Germans, and local suppliers benefit regardless. Three-quarters of VW's parts are bought locally.'

German IBs mitigated at least some of the poor business environmental conditions through the formation of a hub. Some of the problems of poor infrastructure were thus partially overcome, and a focus on technology significantly assisted in shedding the need for unskilled labour.

A complementary perspective is offered by Tokuoka (2012). Analysis of micro panel data for India by Tokuoka suggests that improving the business environment by reducing the costs of doing business, improving financial access, and developing infrastructure, among other things, could stimulate corporate investment. This theoretical conclusion is credible; but it offers only a partial and purely theoretical solution. A broader perspective, espoused by experts, observers, policy-makers and businessmen, suggests that there are six main areas that require reform to ameliorate the business environment and contribute to continued growth prospects and social development in India. These include, (i) updating the archaic and cumbersome labour laws/regulations (e.g. with respect to hiring and firing of employees); (ii) addressing the acute problems of bottlenecks in infrastructure and the quality and extent of infrastructure (e.g. a significant portion of India's road and rail networks are from the pre-independence era); (iii) tackling the inefficient government bureaucracy and streamlining red tape (e.g. improving the ease of doing business); (iv) reducing subsidies that are de facto a drag on the fiscal budget; (v) opening up competition in certain markets; and (vi) eliminating the malaise of pervasive corruption. These are mammoth challenges that must carefully weigh the likely social and socio-economic impact of the desired changes, which can be a deterrent to further progress if watered-down solutions are adopted due to politico-economic dynamics. But reform (economic, legal, institutional and program-based) does not have to be a 'zero sum' game.

Under the previous government of Mr. Singh, some limited progress was achieved with reforms, though largely at the planning stage initially. The retail sector was expected to be liberalized selectively to allow global supermarket chains to enter the local market; diesel fuel subsidies were reduced; foreign airlines were given the green light to invest in local airlines; and several other plans were being hatched to facilitate additional reforms. Yet, the banking bill, that allows more foreign investment in the banking sector, was the only major reform legislation that was approved by the Indian parliament (The Globe and Mail, 2012).

The current Indian government under Prime Minister Modi is embarking on additional positive changes to the business environment, including switching from subsidies on food and fuel to cash benefits for the poor. This will conceivably cut waste and save money. As Charan, Useem and Carey (2014) have commented, ‘... Modi can make or break the country’s business climate ...(and)... he’s running the government like a business, which is new for India.’ Mr. Modi has said that an ‘easier and transparent business environment’ is a priority for him and his government (Zeenews, 2015). What this suggests is that leadership of the government in power (as with the Canadian case) is one key factor in shaping the business environment. As Charan et al (2014: 8) further note:

‘(Mr. Modi) and his party were given an absolute majority rule in India’s fractious parliament. Compared, for example, with the divided U.S. Congress, India’s parliament has relatively broad public support. It should be able to muscle through useful legislation in the months ahead, with Modi at the helm. In July 2014, Modi’s government increased the foreign direct investment limit in the defense and insurance industries from 26 percent to 49 percent, to help raise the game in both sectors. It is likely that more business-friendly legislation will follow.’

Over the past five years, the political economy of the business environment in India was championed by Mr. Modi, not by the business sector. Under his leadership and ideological vision for the nation, a broad scope of business environmental initiatives has borne fruition.

For instance, India has risen 65 places in the World Bank's current rankings on the ease of doing business. Modi has also been instrumental in bringing about a decline in corruption (due to the positive role of non-market forces) and changes in taxation, foreign investment, and subsidies that were a drag on the economy. In comparison, the business sector and IB have played a peripheral role through leveraging of existing strengths to suit their needs (e.g. German firms' adaptability as a case in point). Also, various other institutions (the parliament, governmental bureaucracy, those in the private sector, and public-private hybrid organizations) interact to inform and influence the governance structures relevant to the business environment, though in an ancillary role. It is the interplay of political economy, leadership, and ideology that is the key factor leading to intermediate convergence in shaping and 'managing' India's business environment.

## **CONCLUDING REMARKS**

The Canadian case is the quintessential example of not only the inherent nexus between the key contributing factors (especially political economy, ideology, and leadership) impacting the business environment, but also how comprehensive convergence is central to policy-making on national development and IB issues. The South African case offers very different dynamics and inferences, as there is no convergence of key and ancillary factors – instead, there is a dichotomy that breeds divergence and conflict, abuse of power, with political and economic actors being at opposite ends in what course of action is best for the nation and its business environment. The Indian case shows that leadership and multidisciplinary dimensions of the business environment play a deterministic role. There is a good measure of intermediate convergence in India's business environment.

What is poignant is that few or no solutions have been extended in the past to change the status quo to address divergence. The DBIs do not offer a composite picture nor any solution to the broader weaknesses inherent in the business environment of a nation. Matters of political economy and the overarching factors that lead to convergence are of critical importance but often overlooked. The practical implications of the failure to achieve convergence have a profound bearing on the integrity of the business environment. The possible solutions to tackle divergence include: training of key staff on business environmental matters at global, regional and national institutions; addressing the critical gaps in information and data availability; leadership development through advisory services and related training of key policy-making and decision-making staff at national institutions; and sensitizing key actors in the business environment to the ethical dimensions of possible, planned or actual courses of action. Furthermore, from a business perspective, it is important for businesses to realize that they do not conduct their affairs in a socio-political and ethical vacuum but that they are not only institution takers but affect the very fabric of institutions through their actions both indirectly and directly.

At another level, politics, metrics and data on the World Bank's DBIs have discoloured the business environment rankings and exemplify the pivotal role of political economy in the assessment and measurement of the business environment.

Overall, our final thoughts are the following. First, political economy and convergence are central to a robust business environment as the country cases illustrate and indeed divergence results if there is lack of cohesion and linkages are weak. Second, it is unrealistic to expect comprehensive convergence, or even intermediate convergence, in the business environment



of most countries. Each of the three country cases discussed are fundamentally different – with comprehensive convergence in Canada, intermediate convergence in India, and divergence in South Africa – and offer important but different lessons. There is too much diversity in the governing systems and ethos of nations and each case must therefore be treated on its own merits. Finally, and ideally, metrics and data can play a powerful role in gauging of the business environment.

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